

March 2007



## Brazilian Federal Public Debt – BEST Brazil

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*Brazilian National Treasury*



# Transparency & Predictability

An approach to effective communication and enhanced transparency

## Regular publications

- Annual Borrowing Plan (7th year)
- Public Debt Annual Report
- Auctions Schedule - Monthly
- Federal Public Debt Monthly Report- Statistics
- Debt Reports (Relevant news on debt management)
- The National Treasury Fiscal Result

## Brazil - the first country that satisfied all the investor relations best practice criteria in Institute of International Finance (IIF) report

- Staff reachable through website
- Reciprocal links between government agencies
- Investors able to register for website subscription
- Investor's conference call
- Regular self-assessment of investor relations activities.



## Annual Borrowing Plan 2007

### 2007 Guidelines

- Lengthen the DPF average maturity, primarily by increasing the average term of the securities issued in auctions;
- Reduce the share of debt due in 12 months, thus reducing refinancing risk;
- Gradually replace Selic-linked and FX-linked bonds by fixed rate and price index ones, thus reducing the market risk;
- Issue foreign currency bonds based on qualitative aspects, observing market conditions;
- Stimulate the development of the yield curves for federal public securities on domestic and external markets; and
- Broaden the investor base.



## Annual Borrowing Plan 2007

### Domestic Federal Public Securities Debt (DPMFi) Strategy

- **Fixed Rate Bonds:** increase in the participation of this instrument, lengthening the issuance average maturity. The LTN will have benchmarks maturing in 6, 12 and 24 months while the NTN-F will have maturities of 3, 5 and 10 years.
- **Floating Rate Bonds** (basic interest rate - Selic): net redemptions and maintenance of average maturities at issuance on similar levels to those observed in 2006 (approximately 44 months);
- **Price Index Bonds:** Exclusive NTN-B issuance. Existing maturities by end 2006 (3, 5, 10, 20, 30 and 40 years) will be maintained. Nevertheless, new maturity dates may be created for adjustment to the benchmark structure. There will be no issuance of NTN-C;
- **Exchange Rate Bonds:** As has happened since 2003, no NTN-D issuance - FX-linked security - is planned for 2007.

### Federal External Public Debt (DPFe) Strategy

- Development of the *Real* yield curve in the external market;
- Creation and refining of benchmark points on the dollar yield curve; and
- Maintenance of the buy-back program, observing market conditions, as well as the strategy of correcting the foreign yield curve distortions.

THE PROGRAM, NOW IN A PERMANENT BASIS, WILL COVER ALL FEDERAL EXTERNAL PUBLIC DEBT BONDS, INDEPENDENTLY OF THEIR MATURITIES.

As from 2007, the Early Redemption Program will be carried out by the National Treasury's operations desk

## Annual Borrowing Plan 2007

### Federal Domestic Debt Indicators

Indicators	2003	2004	2005	2006	Jan-07	2007	
						Minimum	Maximum
Stock of DPMFi held by the public (R\$ billion)	731.4	810.3	979.7	1,093.5	<b>1,087.9</b>	1,230.0	1,300.0
Average Maturity of DPMFi (months)	31.3	28.1	27.4	31.1	<b>31.9</b>	32.0	36.0
% Maturing in 12 months	35.3	46.1	41.6	35.7	<b>36.9</b>	29.0	33.0
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Share of DPMFi (%)							
Fixed rate	12.5	20.1	27.9	36.1	<b>34.5</b>	37.0	43.0
Price Index	13.6	14.9	15.5	22.5	<b>23.1</b>	23.0	27.0
Floating rate	61.4	57.1	51.8	37.8	<b>38.9</b>	29.0	36.0
Exchange rate	10.8	5.2	2.7	1.3	<b>1.3</b>	1.0	2.0
Others	1.8	2.7	2.1	2.2	<b>2.2</b>	2.0	4.0

<sup>1</sup> Since these data have been calculated through the use of the commonly used international methodology, the statistics allow for comparisons with the indicators of other countries.

### Federal Debt Indicators\*

Indicators	2003	2004	2005	2006	Jan-07	2007	
						Minimum	Maximum
Stock of DPF* held by the public (R\$ billion)	965.8	1,013.9	1,157.1	1,237.0	<b>1,228.4</b>	1,370.0	1,450.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	32.9	35.5	<b>36.3</b>	37.0	42.0
% Maturing in 12 months	30.7	39.3	38.2	32.4	<b>33.4</b>	27.0	31.0
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Share of DPF (%)							
Fixed rate	9.5	16.1	23.6	31.9	<b>31.1</b>	33.0	39.0
Price Index	10.3	11.9	13.1	19.9	<b>20.4</b>	20.0	24.0
Floating rate	46.5	45.7	43.9	33.4	<b>34.5</b>	26.0	32.0
Exchange rate	32.4	24.2	17.6	12.7	<b>12.1</b>	10.0	12.0
Others	1.4	2.2	1.8	2.0	<b>2.0</b>	1.0	3.0

\* It includes the external debt under the responsibility of National Treasury

\*\* Since these data have been calculated through the use of the commonly used international methodology, the statistics allow for comparisons with the indicators of other countries.



# A steady level of public external debt with improved profile

## Impact of the “Cleaning Up” on the Federal Government External Debt

	(US\$ bn)
Operations	Face Value <sup>1</sup>
<b>External Public Debt in Bonds</b>	<b>15.0</b>
C-Bond call (Oct-05)	1.1
Early Redemption Program <sup>2</sup>	6.1
Brady Bonds call (Apr-06)	6.5
Tender Offer (Jun-06)	1.3
<b>Contractual Debt</b>	<b>22.1</b>
IMF early payment I (Jul-05)	4.9
IMF early payment II (Dec-05)	15.5
Paris Club early payment (Jan-06 <sup>3</sup> )	1.7
<b>Total</b>	<b>37.1</b>

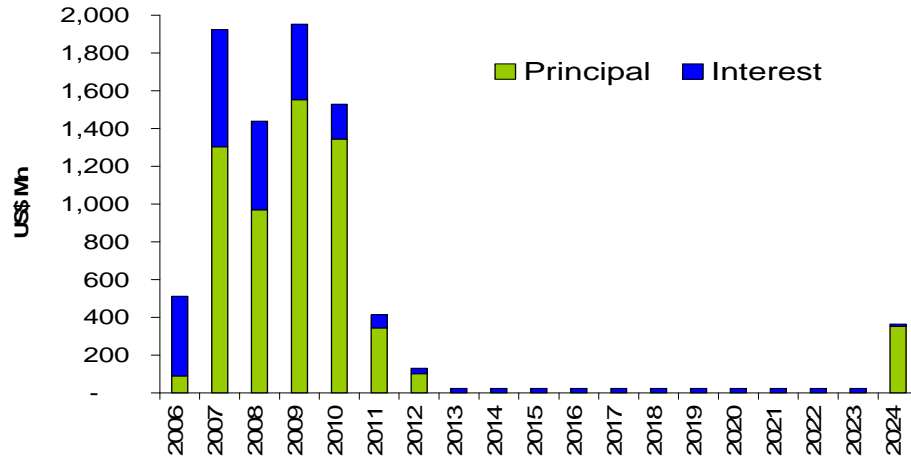
<sup>1</sup> It captures the impact of the operations on the outstanding public debt

<sup>2</sup> The program started in Jan/06. The value of US\$ 6.1 bn refers to the bonds repurchased up to 12/31/06.

<sup>3</sup> Announcement

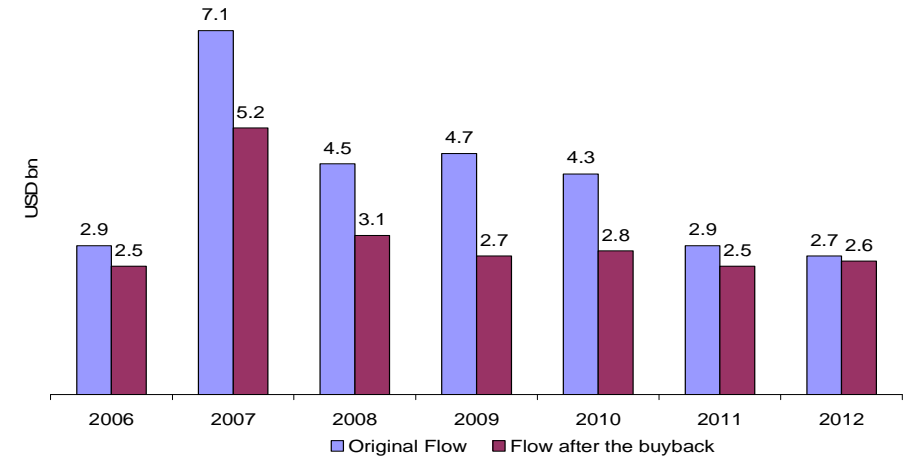
# National Treasury Performance - External Issuances follow qualitative criteria...

## Reduction on External Debt's Payment Flow



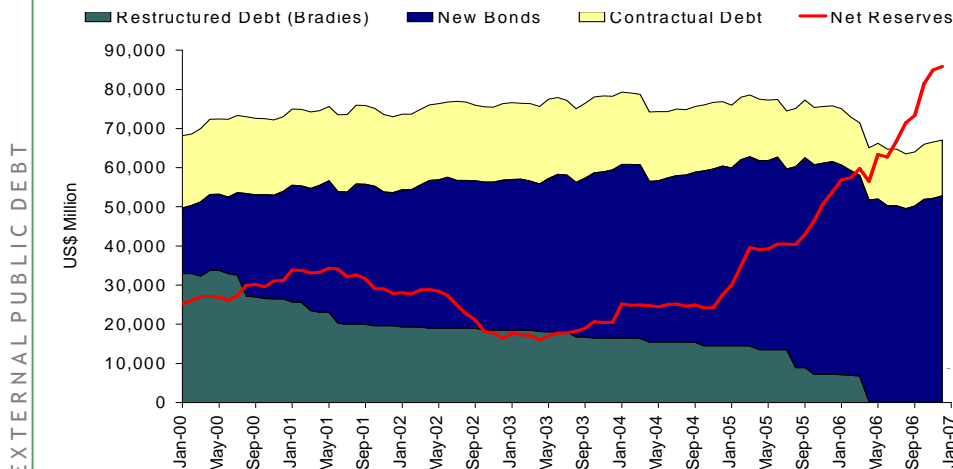
Source: National Treasury

## Buyback program - Maturity profile



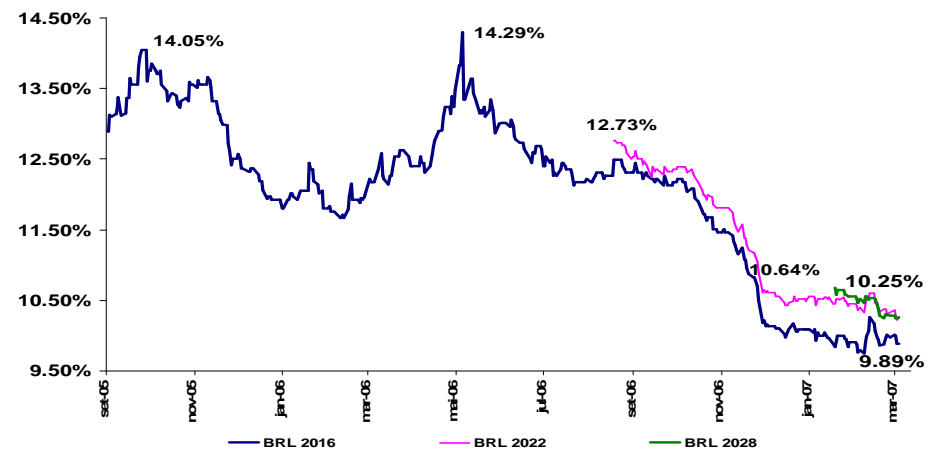
Source: National Treasury

## External Debt - National Treasury



Source: National Treasury

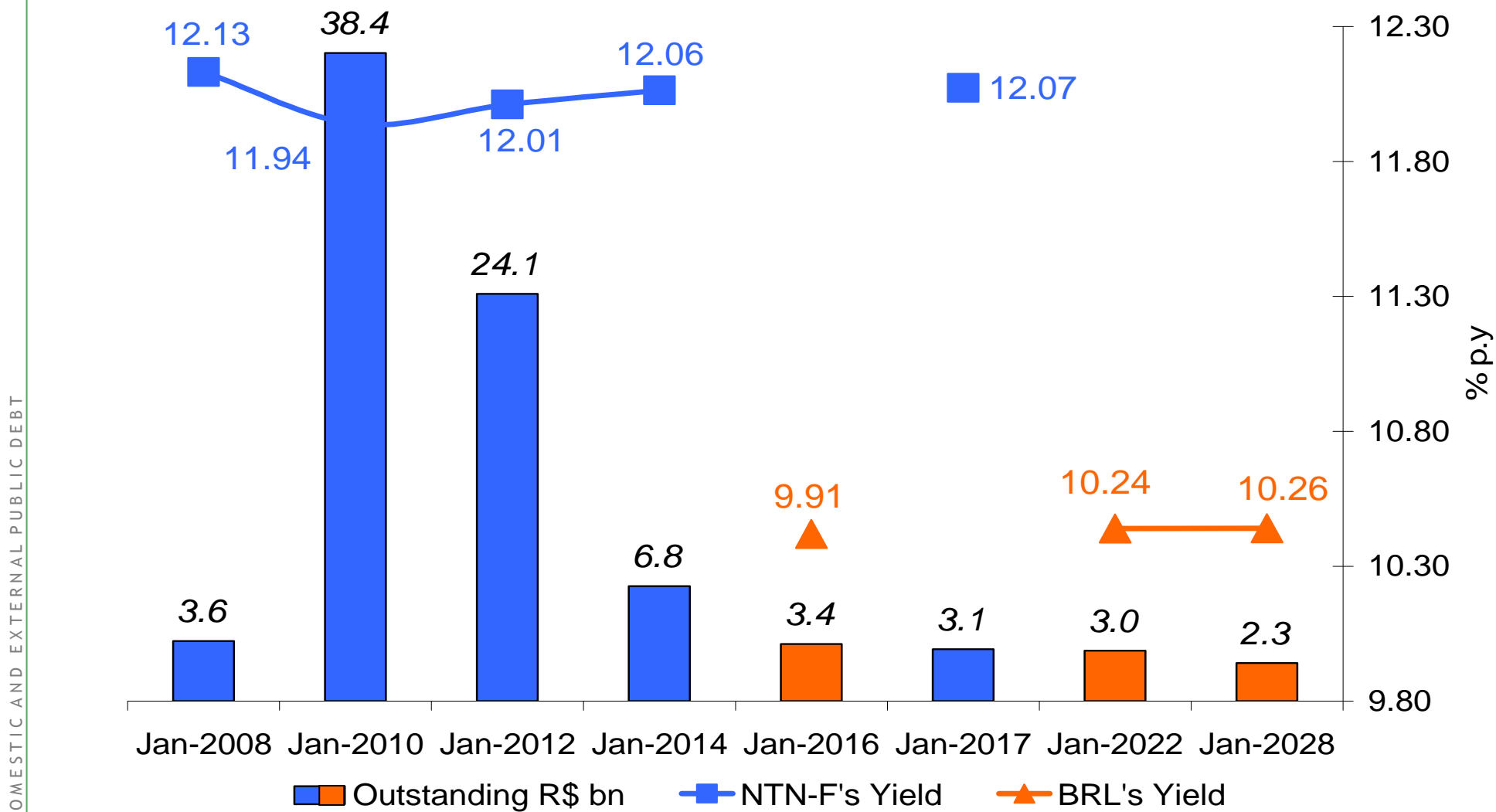
## BRL Yields Evolution



Source: Bloomberg

## National Treasury Performance -...and big opportunities merge in the domestic market

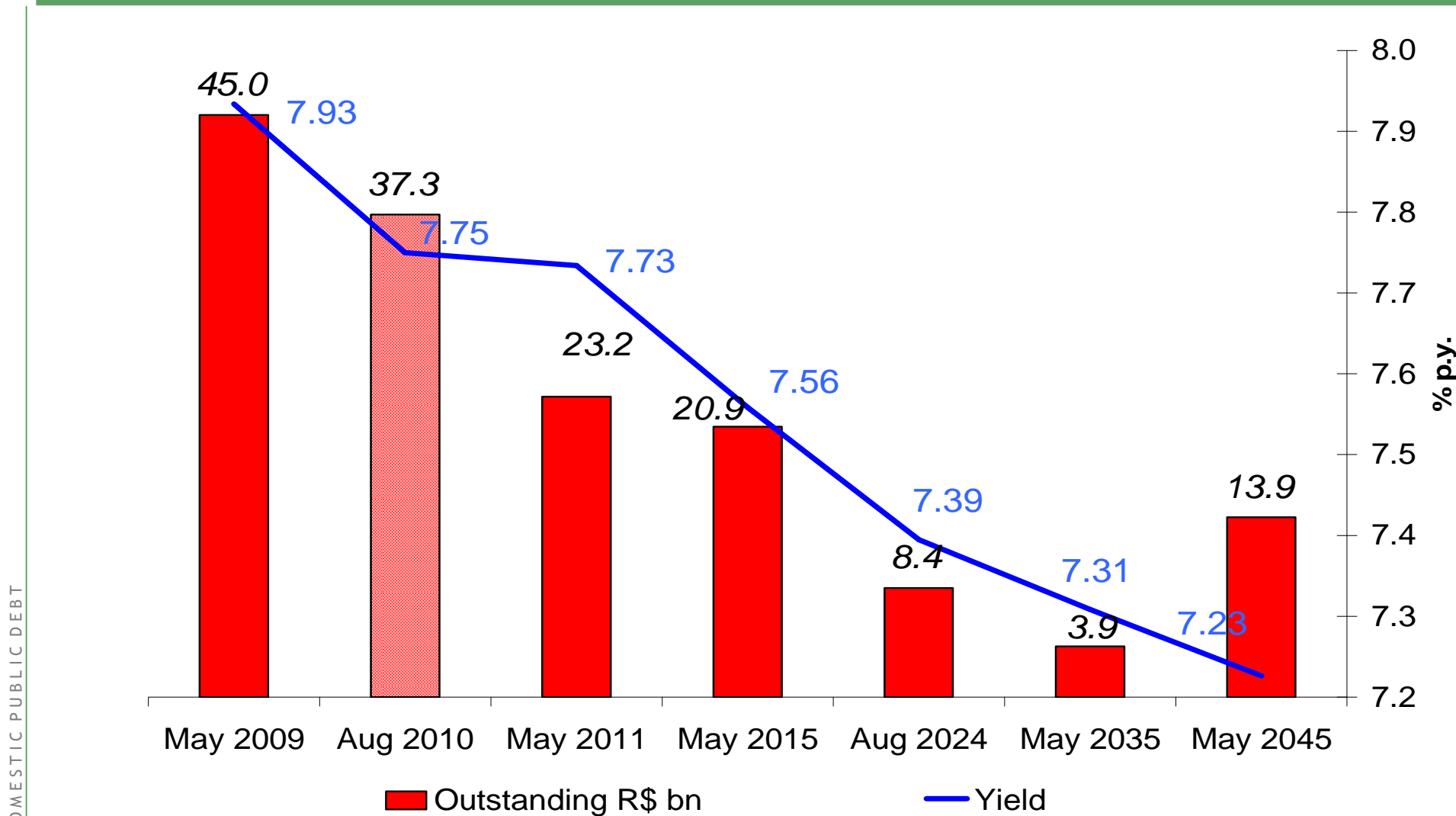
NTN-F & Global BRL Outstanding and yields (as of Mar-07)



Source: National Treasury

## National Treasury Performance -...and big opportunities merge in the domestic market

NTN-B Outstanding and yields (as of Mar-07)

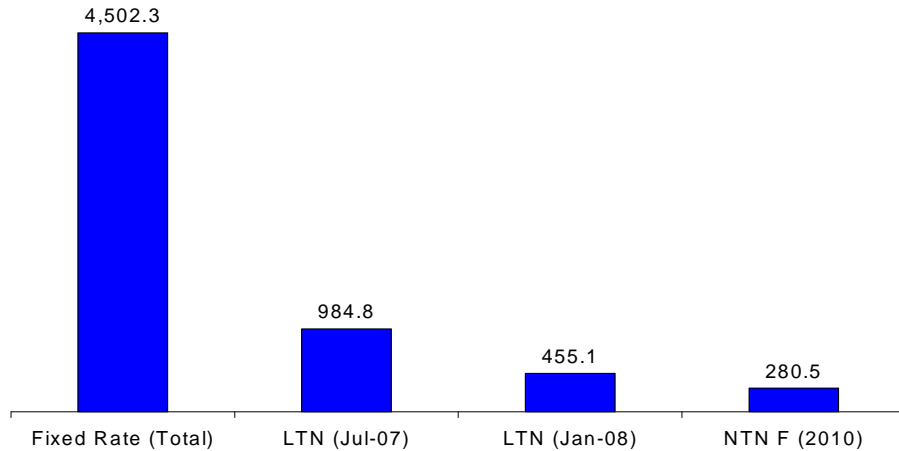


Source: National Treasury



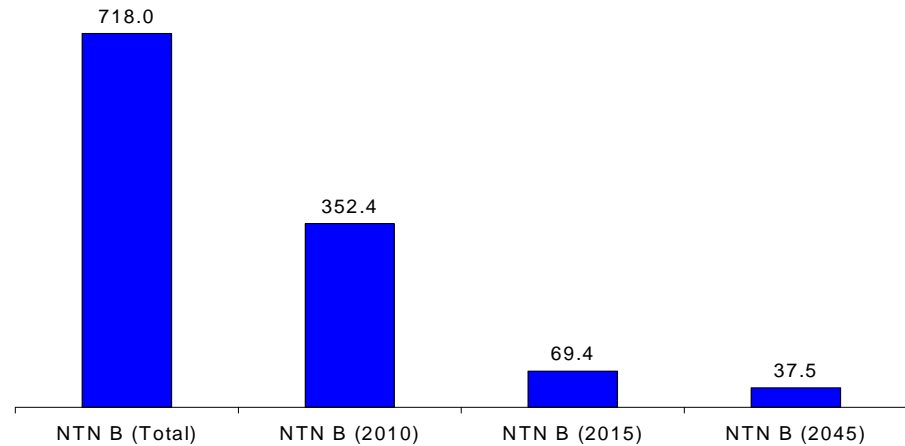
# Performance in Domestic Market - Liquidity Indicators

### Daily Turnover\* - Fixed Rate Bonds (USD bn)



Source: National Treasury \*as of jan-07

### Daily Turnover\* - Inflation linked (USD bn)



Source: National Treasury \*as of jan-07

## Yield X Bid-Ask Spread

Jan 17, 2007

	NTN-B 2010	NTN-B 2015	NTN-B 2045
Yield (BD/252)	7.99%	7.88%	7.45%
Spread (bps)	1	3	12

	LTN Jul/07	LTN Jan/08	NTN-F 2010
Yield (BD/252)	12.64%	12.49%	12.55%
Spread (bps)	1	1	2



## Market Measures - Electronic Platforms

### ■ SISBEX - Creation of the BM&F

- A robust and sophisticated trading system owned and managed by BM&F, the Brazilian Futures and Commodities Exchange.
- From risk and settlement perspectives, it is important to reinforce that all transactions registered at SISBEX are settled through the clearing house also managed by BM&F, following the concept of Central Counterparty, which mitigates the risk to the final investor.

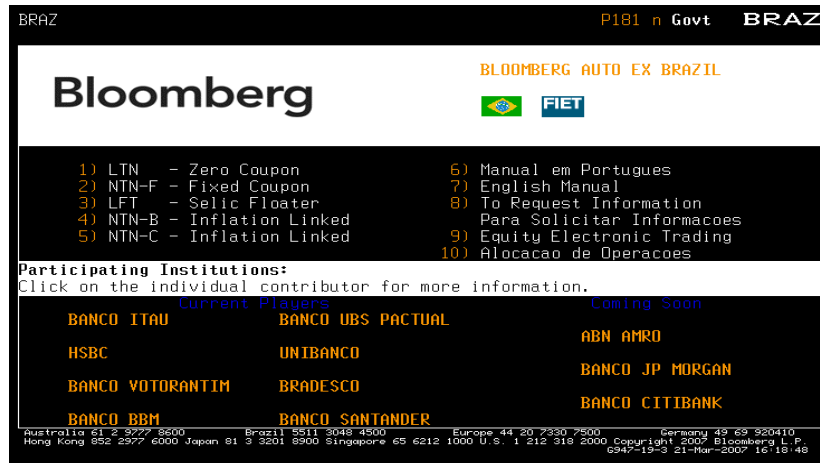
- ### ■ CETIPNET - Creation of the CETIP Negotiation Platform - allows for carrying out several operations on-line, including the negotiation of fixed-income bonds (public and private) and a modality of term operations in auctions of National Treasury Bonds.

## Market Measures - Asset Clearing Promotion

These measures are taken with the aim of:

- Facilitate the participation of foreign investors in the Brazilian domestic debt through measures that will bring more transparency and liquidity to the market, thus expanding and diversifying the investors base;
- Stimulate the participation of institutional investors, such as Pension Funds, in the bonds negotiations in the secondary market;
- Stimulate the bonds negotiation by the dealers through the electronic platform.

### Bloomberg and BM&F Sisbex Screen



8 dealers available and 3 other soon

### Reuters and BM&F Sisbex Screen



Soon, link with Sisbex

## Market Measures - More transparency and liquidity for Federal Public Bonds

### COMPARE - Online System of Federal Public Bonds Quotation

- The ANDIMA (Brazilian National Association of Financial Market Institutions) launched it in June-06. COMPARE is a system that allows investors to check indicative price information<sup>1</sup> of transactions with bonds registered in the SELIC (clearing and settlement public debt bonds house) in the **secondary market**;
- Dealers: Soon on, the dealers who use the screen trading will benefit from better scoring in the ranking system.
- More transparency stimulates a bigger liquidity in this market, bringing foreign and domestic investors to the market.

<sup>1</sup> This is a reference price, not the actual closing prices for each deal



## Market Measures - Facilitating foreign investment

### Integration and streamlining of registration procedures

#### ■ Decreasing Bureaucracy:

- The Ministry of Finance and CVM (Brazilian Security Exchange Commission) have worked to open the Brazilian markets for many years.
- Res. 2689/CVM, from 2000, eliminated most distinctions between institutional and other non-resident investors.
- Processing time at CVM was reduced from up to 30 days to 24 hours.
- **National Revenue Service and CVM are working to streamline CNPJ (*corporate register*) procedures.**
- Investors still rely on a custodian bank, which will also be the responsible for paying all due taxes.

#### ■ Cutting Taxes - exempting foreigners from withholding taxes

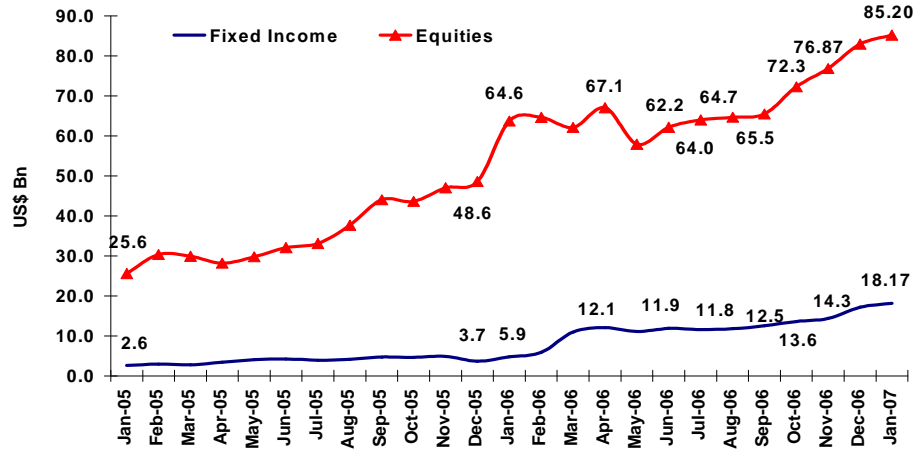
- Since Feb-06.

#### ■ Improving Liquidity and Transparency

- Screen Trading and the COMPARE system.

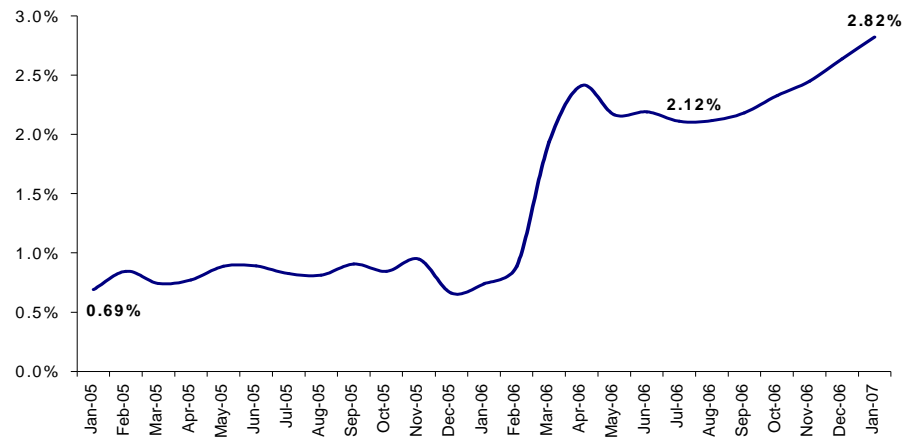
# THE NEW FRONTIER: increasing foreign access to the fixed income market

## Foreigner's Investors: Portfolio level (US\$ bn)

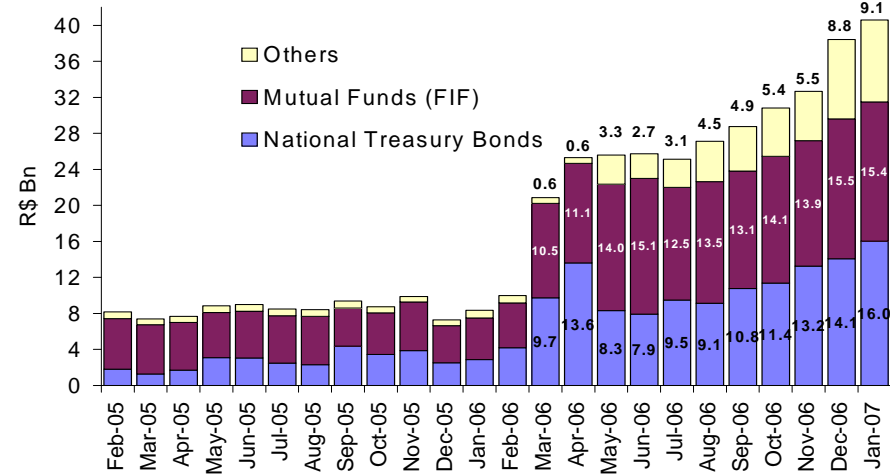


Source: CVM

## Foreigner's Investors: Domestic Debt Participation



## Foreigner's Investors: Distribution among Fixed Income instruments (R\$ bn)

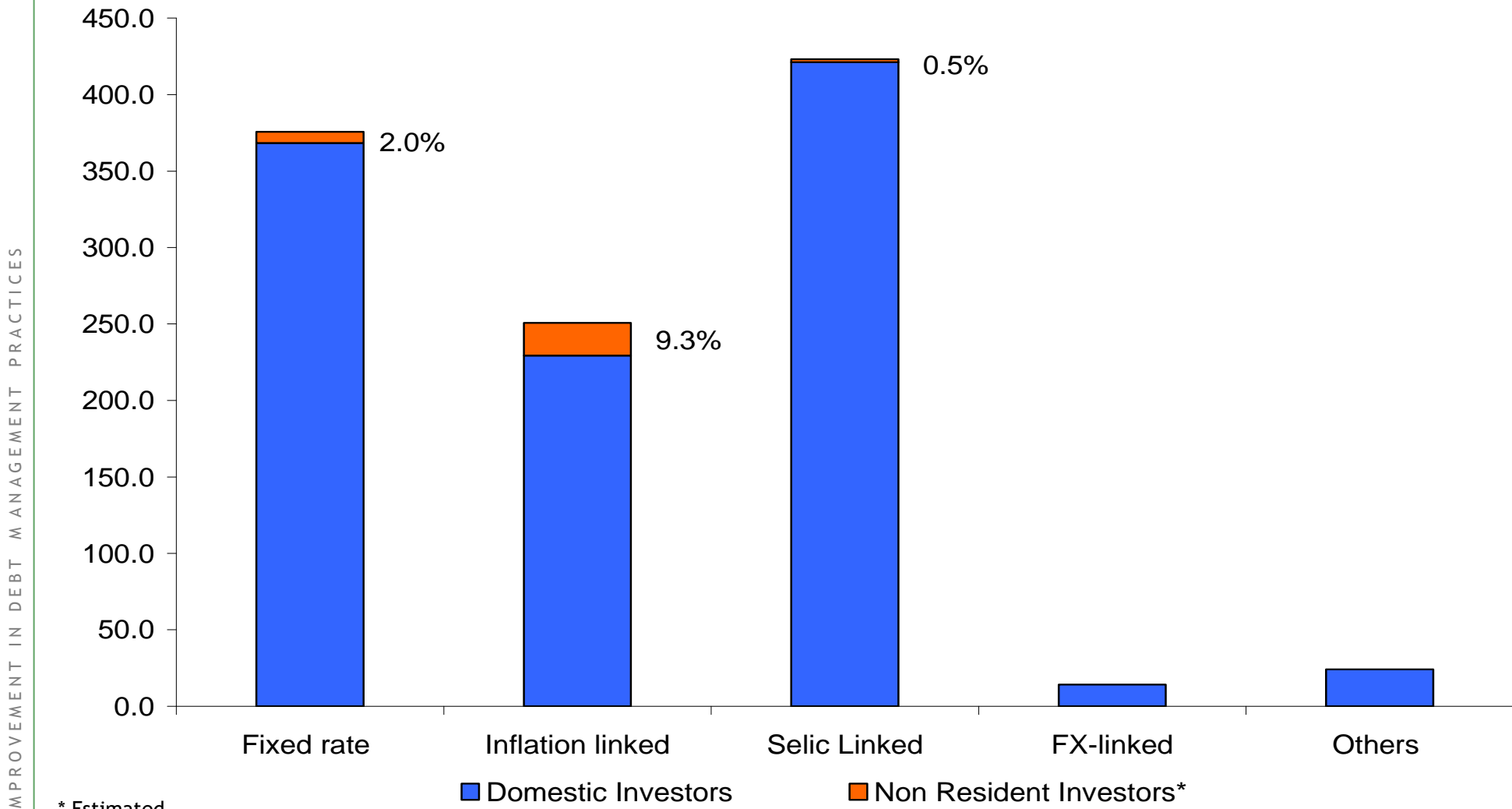


Source: CVM

- Considering both the public bonds and the mutual funds, little variation has been observed from the turbulence in May-06.

# THE NEW FRONTIER: increasing foreign access to the fixed income market

## Domestic Public Debt Profile

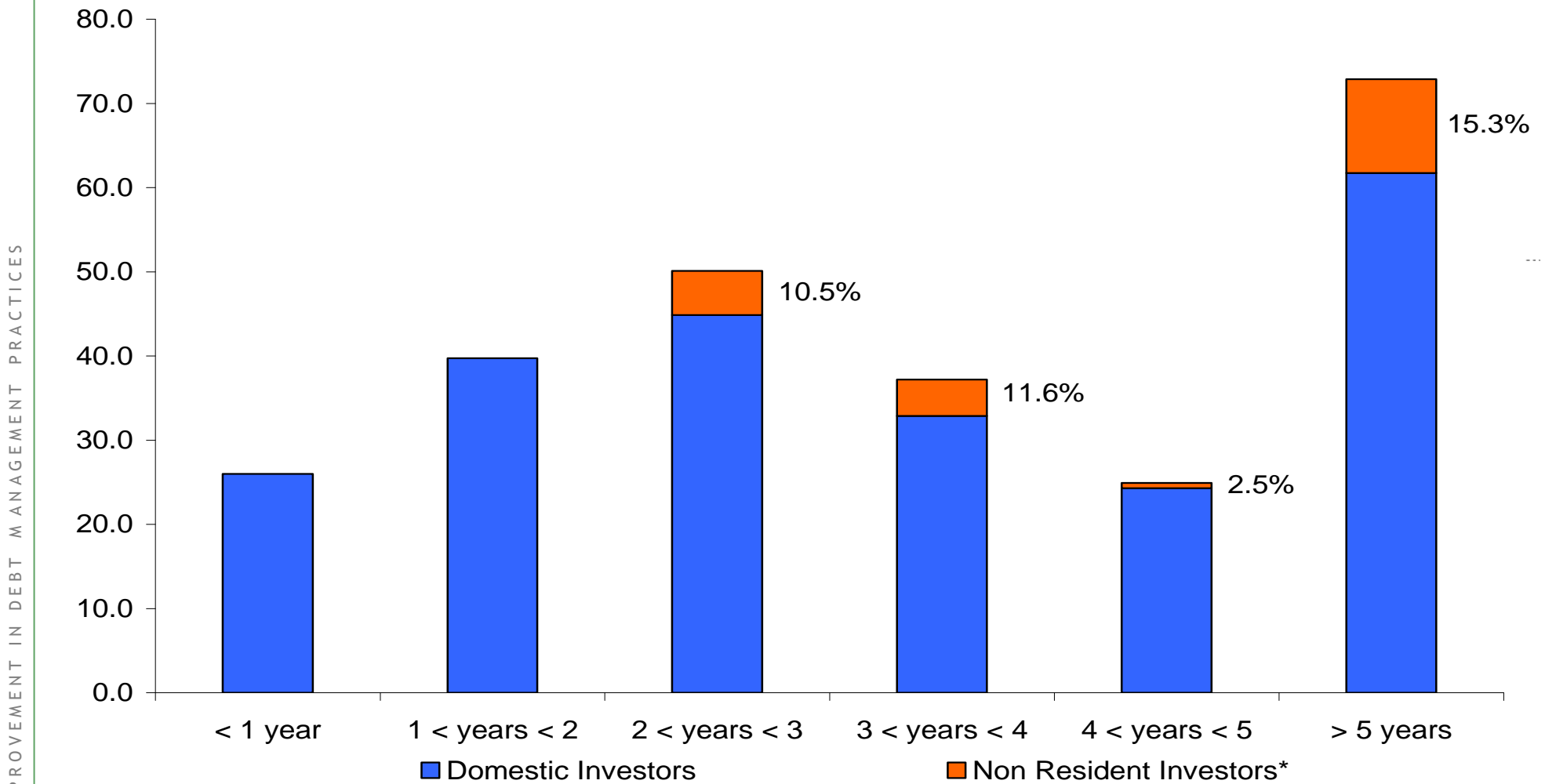


\* Estimated

Source: National Treasury

# THE NEW FRONTIER: increasing foreign access to the fixed income market

## Maturity Distribution of Inflation Linked Bonds



\* Estimated

Source: National Treasury



**For additional information access  
Brazilian National Treasury site:**

**[www.tesouro.fazenda.gov.br](http://www.tesouro.fazenda.gov.br)**

**Or contact Institutional Relations area:**

**[brazildebt@fazenda.gov.br](mailto:brazildebt@fazenda.gov.br)**

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